

EYEOPENER

23 August 2018

Investment rebound in private sector

- **USD weaker against EUR, EM currencies gain**
- **Retail sales in Poland slightly below forecasts**
- **US yields down, domestic yields stable**
- **Today: switch auction in Poland, MPC minutes, abroad flash European PMI and US data**

During yesterday session we observed trends' concertation from Tuesday on FX market – the dollar was still under pressure of last information from US politics which was beneficial for currencies of emerging markets. Fluctuations on bonds market were limited because of expectations on afternoon publication of FOMC minutes. In night trade the dollar got strengthen slightly but US yields dropped. It was a reaction on information that US is imposing new import tariffs and China is going to file a petition to WTO.

In the **FOMC minutes**, similarly as in the previous months, the central bankers were broadly positive about the US economic growth. According to the FOMC the risks for future growth remain balanced and imply the need for gradual rate hikes. Nevertheless, decisions about interest rate hikes in the long run would depend, among other things, on the behaviour of economy in light of the expected disturbances related to changes in global trade. Despite a remark that the impact of trade wars on business is not visible yet (earlier the Fed had signalled such reactions) the statement has been perceived by the markets as neutral.

Retail sales in July rose 7.1% y/y in constant prices, below market consensus and June's result. We would not draw strong conclusions from this slight disappointment. In our opinion the pace of growth of retail sales remains decent, supported by fast growth of households' disposable income. We think the private consumption should continue growing at c.5% y/y, remaining one of the main engines of Poland's economic growth.

Data about investments in the biggest companies showed growth by 13% in 2Q13 (two times faster than in 1Q). The fastest growth was recorded in transport and storage, water supply and waste management as well as in mining. This generates an upside risk to our estimate suggesting that in 2Q total investment growth in the national economy was a touch below 1Q figure.

In 2Q18, revenues of Polish companies employing at least 50 people rose 8.3% y/y and costs by 9.0% y/y. Wage bill rose 11.2% y/y, the fastest pace for at least five years and labour costs added 1.7pp to the overall costs. Remaining cost

categories also rose, particularly materials (10.5% y/y), energy (9.3% y/y) and external services (7.9% y/y). Costs rose faster than revenues for the second quarter in a row (last time we have saw similar situation in 2013) which triggered the decline in profitability to 5.4% from 6% in 2Q17. We think that the cost pressure will persist and further drop of profitability will finally translate into higher growth of final prices.

EURUSD grew yesterday from 1.155 to 1.161, the new high from the beginning of August, after the fifth upward session in a row. No new elements were added to the factors recently holding the dollar under pressure (mainly from the American political arena) and the Wednesday growth was the smallest in the still continuing streak. The markets remained neutral to the FOMC minutes, focusing more on the Chinese reaction to the U.S. imposing more tariffs. Today, the market may turn its eyes to Europe, for a moment at least, where flash PMI for August is to be released. In July, the industrial indices surprised to the upside, giving hope that a slowdown in 2Q was only temporary. If today's data also outperform the projections, the euro may gain vs. the dollar even more.

EURPLN and USDPLN dropped yesterday thanks to further increasing of EURUSD. As a result EURPLN was below 4.28 at the end of the day and after that, USDPLN dropped below 3.69.

Among other CEE currencies, the biggest movements took place on Russian market where the ruble lost vs. the dollar although depreciation of the American currency and oil prices' growth. Afraid of another sanctions, which could be imposed on the Russia by the USA, brought pressure on the ruble.

On the domestic interest rate market IRS and yields rose 1-2bp with the bigger moves seen on the debt market. Abroad, bonds remained near Tuesday's closing levels waiting for the evening release of the FOMC minutes. Treasury yields fell in the evening amid next stage of the trade war between the US and China.

Today at 14:00 CET the NBP releases MPC minutes from the July meeting. The document has most likely retained unchanged rhetoric and is possibly to show a broader transcript of the discussion surrounding new projections. The NBP governor Adam Glapiński considered the July update of NBP projections to support the current MPC approach of holding rates stable for another couple of years, Grażyna Ancyparowicz suggested this MPC could refrain from changing rates at all (its term ends in 2022), while for the Council's hawks (Zubelewicz and Gatnar), it was a reason to become more radical in their views.

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854 Warsaw fax +48 22 586 83 40

email: ekonomia@bzwbk.pl

Web site: skarb.bzwbk.pl

Piotr Bielski +48 22 534 18 87

Marcin Luziński +48 22 534 18 85

Grzegorz Ogonek +48 22 534 19 23

Konrad Soszyński +48 22 534 18 86

Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400

FX market

Today's opening

EURPLN	4.2818	CZKPLN	0.1665
USDPLN	3.7035	HUFPLN*	1.3249
EURUSD	1.1561	RUBPLN	0.0542
CHFPLN	3.7633	NOKPLN	0.4430
GBPPLN	4.7670	DKKPLN	0.5741
USDCNY	6.8692	SEKPLN	0.4078

*for 100HUF

Last session in the FX market 22/08/2018

	min	max	open	close	fixing
EURPLN	4.278	4.297	4.286	4.286	4.2937
USDPLN	3.683	3.719	3.708	3.698	3.7104
EURUSD	1.155	1.162	1.156	1.159	-

Interest rate market 22/08/2018

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)	Last auction	Paper offered	Average yield
OK0720 (2L)	1.59	1	27-Jul-18	OK0720	1.592
DS1023 (5L)	2.48	0	27-Jul-18	PS0123	2.335
WS0428 (10L)	3.14	2	27-Jul-18	WS0428	3.144

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	1.76	0	2.62	0	-0.25	0
2L	1.92	0	2.79	-1	-0.15	0
3L	2.09	0	2.83	-2	-0.02	0
4L	2.26	0	2.84	-2	0.13	0
5L	2.40	0	2.85	-2	0.27	0
8L	2.70	0	2.87	-2	0.65	-1
10L	2.86	0	2.90	-2	0.87	0

WIBOR rates

Term	%	Change (bps)
O/N	1.44	-6
T/N	1.45	-6
SW	1.55	0
2W	1.60	0
1M	1.64	0
3M	1.71	0
6M	1.79	0
9M	1.82	1
1Y	1.87	1

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	1.73	1
3x6	1.73	0
6x9	1.76	1
9x12	1.80	0
3x9	1.81	0
6x12	1.84	0

Measures of fiscal risk

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland			2.80	2
France	27	0	0.34	-1
Hungary	116	1	2.97	0
Spain	72	0	1.02	-1
Italy	252	3	2.69	-3
Portugal	64	0	1.43	-2
Ireland	25	0	0.51	-1
Germany	11	0	-	-

* 10Y treasury bonds over 10Y Bunds

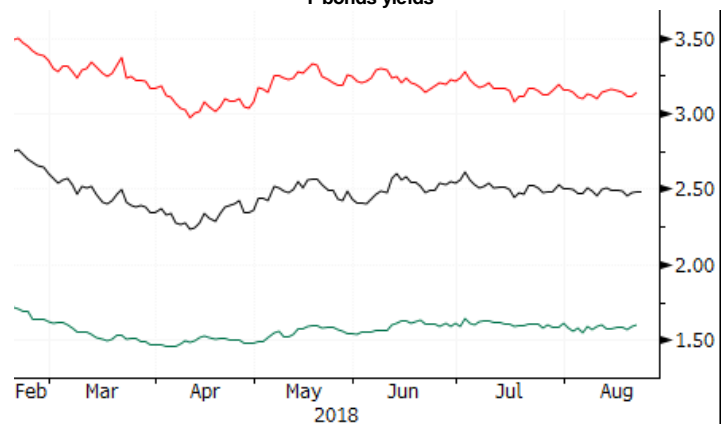
**Information shows bid levels on the interbank market at the end of the trading day

Source: Bloomberg

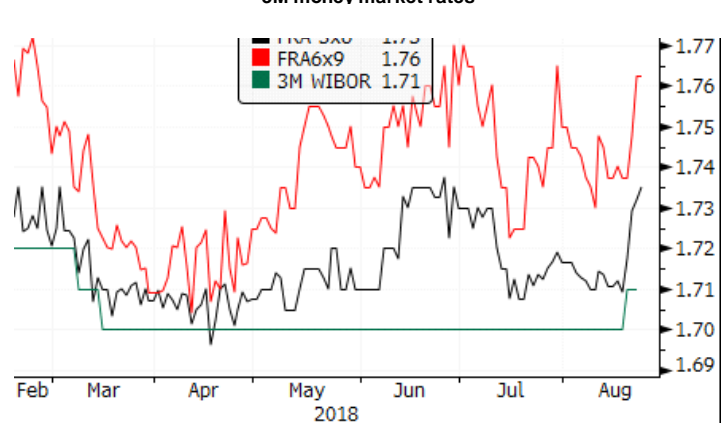
Zloty exchange rate



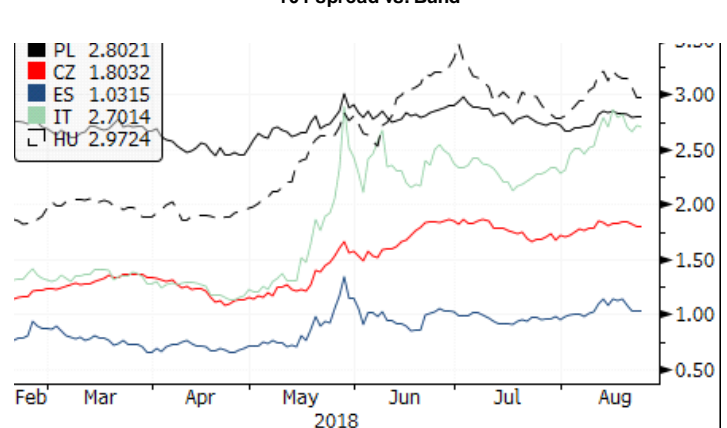
T-bonds yields



3M money market rates



10Y spread vs. Bund



Economic calendar

Economic calendar								
TIME	COUNTRY	INDICATOR	PERIOD		FORECAST		ACTUAL VALUE	LAST
CET					MARKET	BZWBK		VALUE
FRIDAY (17 August)								
10:00	PL	Wages in corporate sector	Jul	% y/y	7.7	7.3	7.2	7.5
10:00	PL	Employment in corporate sector	Jul	% y/y	3.6	3.5	3.5	3.7
11:00	EZ	CPI	Jul	% y/y	2.0	-	2.1	2.0
16:00	US	Flash Michigan	Jul	pts	98.0	-	95.3	97.9
MONDAY (20 August)								
10:00	PL	Sold Industrial Output	Jul	% y/y	9.8	9.9	10.3	6.8
10:00	PL	Construction Output	Jul	% y/y	22.4	21.9	18.7	24.7
10:00	PL	PPI	Jul	% y/y	3.5	3.4	3.4	3.7
TUESDAY (21 August)								
14:00	HU	Central Bank Rate Decision	Aug/18	%	0.90	-	0.90	0.90
WEDNESDAY (22 August)								
10:00	PL	Retail Sales Real	Jul	% y/y	7.4	7.6	7.1	8.2
16:00	US	Existing Home Sales	Jul	% m/m	0.4	-	-0.7	-0.6
20:00	US	FOMC Meeting Minutes			-	-		0.0
THURSDAY (23 August)								
09:30	DE	Flash Germany Manufacturing PMI	Aug	pts	56.5	-		56.9
09:30	DE	Flash Markit Germany Services PMI	Aug	pts	54.3	-		54.1
10:00	EZ	Flash Eurozone Manufacturing PMI	Aug	pts	55.2	-		55.1
10:00	EZ	Flash Eurozone Services PMI	Aug	pts	54.4	-		54.2
11:30	PL	Bond Switch Auction			-			
14:00	PL	Money Supply M3	Jul	% y/y	7.3	7.3		7.3
14:00	PL	MPC minutes			-			
14:30	US	Initial Jobless Claims	week	k	215	-		212
16:00	US	New Home Sales	Jul	% m/m	2.2	-		-5.3
FRIDAY (24 August)								
08:00	DE	GDP WDA	2Q	% y/y	2.0	-		2.0
10:00	PL	Unemployment Rate	Jul	%	5.9	5.9		5.9
14:30	US	Durable Goods Orders	Jul	% m/m	0.95	-		0.8

Source: BZ WBK, Bloomberg, Parkiet

* in case of the revision the data is updated

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.